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Edmonton, Alberta T6G 2R6

Circle Energy Inc.

Annual Report

for the Year Ended December 31, 1994

Circle Energy Inc. is a publicly traded resource company actively engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada.

The Company was incorporated on March 1, 1994. Since its incorporation, Circle has issued 2,200,000 of its common shares to founding shareholders for aggregate consideration of \$110,000 and completed its initial public offering of 2,050,000 common shares raising \$205,000 in gross proceeds. The initial public offering was made pursuant to rules and policies of the Alberta Securities Commission and the Alberta Stock Exchange governing junior capital pool offerings.

The common shares of Circle Energy Inc. were listed and posted for trading on the Alberta Stock Exchange on July 27, 1994.

On October 31, 1994, Circle completed the acquisition of 100% of the issued and outstanding shares of Silver Sage Energy Inc., a private Saskatchewan oil and gas company with two producing oil properties located in southwest Saskatchewan. The aggregate purchase price was \$1,378,000 (net of \$822,000 debt) comprised of \$150,000 and issuance of 4,912,000 common treasury shares of Circle at a deemed price of \$0.25 per share.

The purchase of Silver Sage constituted the major transaction of Circle such that Circle ceased to be regulated as a junior capital pool company.

Report to Shareholders

Circle Energy Inc. is pleased to present its first Annual Report to shareholders covering the year ended December 31, 1994.

On October 31, 1994, Circle completed its required major transaction (as defined by regulatory authorities) and progressed from a junior capital pool company with no revenue generating assets to an active junior oil and gas company with interests in two oil properties which produced an average of 158 barrels of oil per day in 1994.

The acquisition of Silver Sage Energy Inc. was completed primarily for Circle shares, but the process of identifying and evaluating acquisition opportunities and completing the acquisition utilized substantially all of the limited cash available from Circle's share

offerings. Management considered going to the equity market immediately to raise working capital, however, due to the negative investment climate for oil and gas companies, efforts have been focused on activities with potential to add long term value with minimal upfront investment.

Consistent with our objective of adding long term value, we have proceeded with establishing a land position with an excellent joint venture partner. Due to the nature of this business, we will not disclose details of the land position for several months. We are also proceeding with joint venture opportunities with several other industry participants and investment groups. We are now focused on six different projects which, if successful, could add significant long term value.

On a day to day basis, as well as focusing on long term objectives, we are continuing to concentrate on optimizing our 100% owned Gull Lake asset. Last fall we re-perforated and cleaned up our water injection well resulting in considerable increased capacity. We increased electrical power capacity and added pumping capacity at the battery. We increased pumping capacity in two oil wells and completed a re-perforation at another oil well. These investments are now starting to provide returns with production increases of about 20 barrels of oil per day. For 1995, we are considering installing additional water knockout capacity. We will determine if this is a prudent investment by the end of June.

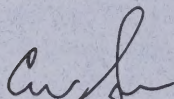
Circle is fortunate to have the technical support of two fine geologists as part of its organization. Mark Oliver has considerable experience in Alberta and dedicates the majority of his time to Alberta projects. Mark Barnes also has considerable experience and devotes the majority of his time to Saskatchewan projects. In order to make the best use of their time and experience, Circle has invested in geological computer hardware and software. In today's competitive world, state of the art technology is required by all companies.

Your management is committed to steady, financially sound growth and value creation. Circle Energy is now well on its way to establishing the critical mass necessary to support the personnel and re-investment required to pursue growth opportunities. The long term strategy is value creation through a balanced program of acquisition, development and exploration.

Circle, like the many other junior oil and gas companies, is striving to stand out from the crowd. We believe the key to success is strategic associations with people who share our philosophy of a win/win business approach for all interested parties.

1995 will be a critical year in the evolution of Circle. We commit to continue our daily focus on long term value creation and building a highly skilled team of people who are recognized as leaders among their peers.

As your President, I want to thank our employees, business associates, Board of Directors and shareholders for their support during our start up phase. I look forward to the challenges ahead and participating in our collective future successes.



C.W. (Bill) Baker

President and Chief Executive Officer

May 10, 1995

Operations Highlights

The principal assets of Circle are two producing oil properties - a 100% working interest in the Gull Lake property and a 22.17% working interest in the Hazlet Unit. Circle's share of production from these properties averaged 158 barrels of 23 degree API crude oil per day for 1994.

An independent Reserve Appraisal and Economic Valuation estimated Circle's proved plus risked probable reserves at 577,000 barrels of oil as of January 1, 1995.

HAZLET UNIT - 22.17% WORKING INTEREST

The Hazlet Unit, consisting of approximately 510 acres, is located 30 miles west of Swift Current, Saskatchewan. The Roseray sand developed by the unit has been on production since 1964 and has been produced under waterflood status since the early 1970's. Unit facilities include an oil battery and water injection plant, seven producing oil wells, three water injection wells, one suspended oil well, a suspended water injection well and a source water well. The primary depletion mechanism for the Hazlet pool is solution gas drive.

During 1994, the Hazlet Unit produced at an average rate of 440 barrels per calendar day with Circle's 22.17% share of production being 97 barrels per day. Proved plus risked probable reserves are estimated to be 268,000 barrels as of January 1, 1995.

Upside potential exists at the Hazlet Unit through improved operating practices to reduce operating costs, the use of solution gas to significantly reduce electrical costs and the potential for development drilling.

GULL LAKE - 100% WORKING INTEREST

The Gull Lake property, consisting of approximately 960 acres, is located 2.5 miles west of the town of Gull Lake, Saskatchewan. Gull Lake consists of an oil battery and a water disposal well, three upper Shaunavon wells and three Roseray sand wells.

During 1994, Gull Lake produced at an average rate of 61 barrels per calendar day. Proved plus risked probable reserves are estimated to be 309,000 barrels as of January 1, 1995.

Financial

Circle commenced doing business in July 1994 upon completion of its initial public offering. Until October 31, 1994 when it acquired Silver Sage Energy Inc., Circle did not conduct operations other than identification, evaluation and completion of the acquisition of oil and natural gas businesses and assets. 1994 being the first year of operations for Circle, comparative financial information for prior years is not available.

The acquisition of Silver Sage by Circle is considered to be a common control transaction and has been accounted for on the continuity of interests basis. The consolidated financial statements contained in the Annual Report reflect the assets and liabilities and results of operations at their historical amounts in the books of the respective combining companies.

Silver Sage commenced operations with the acquisition of a 12.5% interest in the Hazlet Unit at the end of 1993. It acquired its 100% interest in the Gull Lake property effective January 1, 1994 and acquired a further 9.67% interest in the Hazlet Unit effective March 1, 1994.

The consolidated financial statements for 1994 include certain substantial non-recurring costs such as start up costs for both Circle and Silver Sage, costs associated with Silver Sage's purchase of the producing properties, Circle's cost of its initial public offering and the cost of Circle's acquisition of the shares of Silver Sage.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Circle Energy Inc. as at December 31, 1994 and the statements of loss and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
April 7, 1995

CIRCLE ENERGY INC.

Consolidated Balance Sheet

December 31, 1994

Assets

Current assets:

Cash	\$ 54,349
Accounts receivable	55,974
	<hr/> 110,323

Capital assets (note 3)	910,191
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Deferred financing costs (net of amortization of \$15,223)	24,877
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	\$ 1,045,391
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Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 43,007
Income taxes payable	18,176
	<hr/> 61,183

Long-term debt (note 4)	822,000
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Provision for site restoration	24,507
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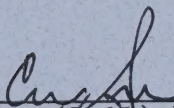
Shareholders' equity:

Share capital (note 5)	228,400
Deficit	(90,699)
	<hr/> 137,701

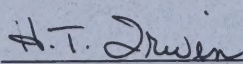
	\$ 1,045,391
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See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



C.W. (Bill) Baker
Director



H.T. (Tom) Irwin
Director

CIRCLE ENERGY INC.

Consolidated Statement of Loss and Deficit

Year ended December 31, 1994

Revenue:	
Oil sales	\$ 913,133
Royalties	(249,877)
	<hr/> 663,256
Expenses:	
Operating	442,037
General and administrative	60,151
Interest on long-term debt	63,086
Depletion and depreciation	145,998
Provision for site restoration	24,507
	<hr/> 735,779
Loss before income taxes	<hr/> (72,523)
Income taxes	(18,176)
Net loss, being deficit at end of year	<hr/> \$ (90,699) <hr/>

See accompanying notes to consolidated financial statements.

CIRCLE ENERGY INC.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1994

Cash provided by (used in):

Operations:

Net loss	\$ (90,699)
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Items not involving cash:

Depletion and depreciation	145,998
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Provision for site restoration	24,507
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Amortization of deferred financing costs	15,223
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Funds provided by operations	95,029
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Change in non-cash operating working capital:

Accounts receivable	(55,974)
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Accounts payable and accrued liabilities	43,007
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Income taxes payable	18,176
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	100,238
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Financing:

Long-term debt	822,000
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Share capital	228,400
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Deferred financing costs	(40,100)
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	1,010,300
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Investments:

Additions to capital assets	(1,056,189)
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Increase in cash, being cash at end of year	\$ 54,349
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See accompanying notes to consolidated financial statements.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 1994

1. Commencement of operations and basis of presentation:

Circle Energy Inc. ("the Company") was incorporated on March 11, 1994 pursuant to the provisions of the Business Corporations Act (Alberta). On June 21, 1994 the Company completed its initial public offering and became a "junior capital pool company" in accordance with the policies of the Alberta Securities Commission and the Alberta Stock Exchange.

On August 1, 1994, the Company entered into an agreement to acquire all of the issued and outstanding shares of Silver Sage Energy Inc. ("Silver Sage") for consideration of \$1,378,000 consisting of 4,912,000 common shares at an ascribed value of \$0.25 per share and cash of \$150,000 ("the Acquisition"). This transaction was approved at a Special Meeting of the shareholders of the Company on October 25, 1994 and constituted the Company's Major Transaction (as defined by Policy 4.11 of the Alberta Securities Commission).

As the shareholders of Silver Sage held a controlling interest in the common shares of the Company after the issue of shares on the Acquisition, Silver Sage is considered to be the acquirer for accounting purposes. As individuals controlling more than 67% of the shares of Silver Sage prior to the completion of the Acquisition were in a position to significantly influence the operations and activities of the Company, the Acquisition is considered to be a common control transaction and has been accounted for on the continuity of interests basis. Accordingly, these consolidated financial statements reflect the assets and liabilities and results of operations at their historical amounts in the books of the respective combining companies.

Silver Sage commenced operations with the acquisition of certain petroleum and natural gas properties at the end of 1993.

2. Summary of significant accounting policies:

(a) Petroleum and natural gas operations:

The company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves, net of related government grants, are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, interest costs on unproved properties, and overhead charges directly relating to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproved properties are initially excluded from the costs subject to depletion. These unproved properties are assessed regularly to ascertain whether impairment should be added to the costs subject to depletion.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 1994

2. Summary of significant accounting policies (continued):

(a) Petroleum and natural gas operations (continued):

The capitalized costs including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated net proved reserves as determined by the Company's independent petroleum engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Depreciation of the office equipment is provided on the declining balance method at the rate of 20%.

The total capitalized costs less accumulated depletion and depreciation, the cumulative provisions for site restoration costs and deferred income taxes are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost, net of impairments, of unproved properties, less estimated future general and administrative expenses, financing costs, site restoration costs and income taxes.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

(b) Joint interest operations:

A significant portion of the Company's exploration and production activities are conducted jointly with other entities and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(c) Deferred financing costs:

Deferred financing costs are amortized on a straight-line basis over a two and one half year period and are included in interest expense.

(d) Site restoration costs:

Future site restoration costs are provided on a unit-of-production basis. These costs are based on year end estimates of the anticipated costs of site restoration. Actual restoration costs are charged to the site restoration provision as incurred.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 1994

3. Capital assets:

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 805,800	\$ 117,958	\$ 687,842
Production equipment	236,509	27,377	209,132
Office equipment	13,880	663	13,217
	<u>\$ 1,056,189</u>	<u>\$ 145,998</u>	<u>\$ 910,191</u>

4. Long-term debt:

The loan is payable to Prairie Security Fund Ltd. and is due July 15, 1996. Interest is charged at the rate of 8% per annum and is payable monthly beginning February 15, 1994. The loan is secured by substantially all of the assets of the Company.

5. Share capital:

The Company's authorized share capital consists of unlimited number of common shares without nominal or par value.

Issued and outstanding:

	Number of Shares	Consideration
Issued:		
For cash	2,200,000	\$ 110,000
For cash on completion of initial public offering	2,000,000	200,000
On acquisition of subsidiary (note 1)	4,912,000	100
For cash on exercise of stock options	50,000	5,000
Issue costs		(86,700)
Balance, December 31, 1994	<u>9,162,000</u>	<u>\$ 228,400</u>

At December 31, 1994, options for 751,000 shares were outstanding at exercise prices ranging between \$0.10 and \$0.15 per share, exercisable at various dates through to November 1999.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 1994

6. Income taxes:

The income tax provision differs from the income taxes which would result had the Company applied the statutory rate of 45.84% to earnings before taxes. The differences between expected and actual tax provisions are as follows:

Income for the year before taxes	\$	(72,523)
Expected income tax expense		(33,245)
Increase (decrease) in income expense resulting from:		
Non-deductible crown charges		107,697
Resource allowance		(40,363)
Excess of expected rate over small business rate		(31,977)
Depletion not deductible for income tax purposes		9,585
Benefit of losses not recorded		6,479
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Actual income tax expense	\$	18,176

7. Loss and funds from operations per common share:

Loss	\$	(0.01)
Funds from operations	\$	0.01

Per share information is calculated using the weighted average number of shares outstanding of 6,682,833 for the year ended December 31, 1994.

Corporate Information

DIRECTORS

C.W. (Bill) Baker
President
Circle Energy Inc.
Calgary, Alberta

Gary Bosgoed
President
Bosgoed Project Consultants Ltd.
Regina, Saskatchewan

Brian Brunskill
President
Helix Geological Consultants
Regina, Saskatchewan

Richard DeGroat
Partner
Milner Fenerty
Calgary, Alberta

Kirk Henderson
Managing Director
The Jim Pattison Group
Vancouver, B.C.

H.T. (Tom) Irwin
Vice President
Circle Energy Inc.
Calgary, Alberta

Victor Redekop
Vice President Finance
Simmons Group Inc.
Calgary, Alberta

HEAD OFFICE

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Calgary, Alberta T2P 2V6

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EXCHANGE LISTING

Alberta Stock Exchange
Symbol: CEN

AUDITORS

KPMG Peat Marwick Thorne

SOLICITORS

Milner Fenerty

BANKERS

Royal Bank of Canada

REGISTRAR & TRANSFER AGENT

Montreal Trust Company of Canada

ANNUAL MEETING

Shareholders are invited to attend the company's Annual General Meeting which will be held in the 2nd floor conference room at 500 4th Avenue S.W., Calgary, Alberta on Friday, June 16, 1995 at 10:00 a.m. (Calgary time).